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Land values and local taxation

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LAND VALUES

AND

LOCAL TAXATION.

BEING A REPORT PRESENTED TO

HIS MAJESTY THE KING

BY HIS HONOUR

JUDGE O'CONNOR, K.C.,

A MEMBER OF THE

ROYAL COMMISSION ON LOCAL TAXATION.

ONE PENNY.

FIVE SHILLINGS PER 100, CARRIAGE FORWARD

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ROYAL COMMISSION ON LOCAL TAXATION.

REPORT

BY

His Honour JUDGE O'CONNOR, K.C.

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In August, 1896, a Royal Commission was appointed by LORD SALISBURY's Government "to enquire into the present system under which taxation is raised for local purposes, and report whether all kinds of real and personal property contribute equitably to such taxation; and, if not, what alterations in the law are desirable in order to secure that result." In June, 1901, the majority of the Commissioners (consisting of EARL CAWDOR, SIR JOHN T. HIBBERT, MR. STUART WORTLEY, MR. C. N. DALTON, MR. C. A. CRIPPS, MR. HARCOURT E. CLARE, MR. T. H. ELLIOTT, MR. E. ORFORD SMITH, and MR. JOHN L. WHARTON) reported against the Taxation of Land Values. A Minority Report was signed by LORD BALFOUR OF BURLEIGH (the Chairman of the Commission, and a member of Lord Salisbury's Cabinet), LORD BLAIR BALFOUR (Lord Justice-General of Scotland), SIR EDWARD HAMILTON (Assistant-Secretary of the Treasury), SIR GEORGE MURRAY (Secretary to the Postmaster-General), and MR. JAMES STUART, L.C.C. (formerly M.P.), recommending that a special Site Value Rate should be imposed in urban districts, the proceeds of the rate to be devoted to special kinds of public expenditure.

HIS HONOUR JUDGE O'CONNOR, K.C. (formerly Mr. Arthur O'Connor, M.P.), did not sign either of the above-mentioned Reports, but presented a separate Report, which is reprinted herewith.*

The Editor is responsible for the headlines to the paragraphs, which are not in JUDGE O'CONNOR's Report as printed in the blue book.

* All these Reports will be found in the "Final Report of the Royal Commission on Local Taxation" (Cd. 638 of 1901) to be obtained for 1s. 6d. from Messrs. Eyre & Spottiswoode, or from the Office of the English Land Restoration League, 376 and 377 Strand, London, W.C. (Post free, 1s. 10½d.)

TO THE KING'S MOST EXCELLENT MAJESTY.

MAY IT PLEASE YOUR MAJESTY:

With much regret I find myself unable to subscribe the Report of the great majority of the Commissioners, and venture only with diffidence and reluctance to state the grounds upon which I am constrained to differ from the conclusions of gentlemen so much more qualified than myself to deal with the subject referred to us. That Report, however, seems to me to be for the most part taken up with matters which, however interesting and important in themselves, are quite outside the Terms of Reference, and to deal only in a very slight manner with that which should be our principal concern, viz., the equity of the existing sytem of taxation for local purposes in respect of real and personal property.

SIDE ISSUES.

The character of the services which are now locally dealt with; what services ought to be considered local and what national; how relief to local ratepayers should be provided and distributed; the nature, form, and extent of subventions from the Exchequer; the existing rates of exemptions; compounding; the classification of lunatics in workhouses; the proper areas of levy, &c.; the confusion introduced into the public accounts by the system of assigned revenues, and the effect on local finance of the arrangements connected with Exchequer Contributions; all these matters are fit subjects of inquiry; but they have not been referred to us. No doubt the present state of things is an elaborate complication of anomalies in respect of administrative, assessing and spending authorities, rates and areas, deductions, compounding, and differential assessments, differing as between the three countries which make up the United Kingdom, and differing in England as between the Metropolis and the rest of the country. But whether the areas be large or small; whether they be the same for all purposes, or whether, as often happens, there are different areas of charge in respect of different services; and whether services are exclusively local or not, cannot affect the question of equitable incidence of taxation on real or personal property. Whether the area of charge be large or small, the equity or inequity of the incidence will remain the same.

THE "MAJORITY REPORT."

The majority of the Commissioners remark in Chapter III. of their Report that "it would seem necessary to ascertain what are at present the respective contributions of 'realty' and 'personalty.'

But this is not possible until there has been discovered a final and exact solution of the baffling problem of the incidence* of rates and taxes. . . . .

"And lastly, if these difficulties were surmounted the greatest difficulty of all would remain—that of finding a criterion of equity."†

Accordingly they have, as it seems to me, concerned themselves principally with the relief of local ratepayers as a body and with the mode in which such relief should be distributed, while scarcely touching the question of equitable imposition of burden between the different classes of the ratepayers themselves.

This result is probably due to the fact that the terms of reference admit of very varied constructions; and, indeed, after more than four years' consideration of them, there is scarcely an approach to an agreement among the majority of the members of the Commission as to what may be their exact significance.

THE REAL QUESTION FOR THE COMMISSION.

We are directed "To inquire into the present system under which taxation is raised for local purposes, and report whether all kinds of real and personal property contribute equitably to such taxation; and if not, what alterations in the law are desirable in order to secure that result."

I interpret these words to mean that we are to report with a view to the alteration of the law, if such alteration is found desirable after an inquiry into the contributions made by all kinds of real and of personal property under the present system of taxation for local purposes.

DEFINITIONS.

In order to do this it will clearly be necessary—

First, to define "local purposes," and also "real" and "personal" property;

Secondly, to ascertain what is the system under which taxation is at present raised for those purposes, and whether under that system all kinds of real and personal property now contribute to that taxation;

Thirdly, to inquire whether the contributions, so far as traceable, are equitably exacted—and, as involved in this, what is "equitable."

"Local purposes" may, in the words of the main Report, be taken to be purposes for which local public authorities are now authorised to expend money.

* Whatever question may be raised as to the incidence of taxation, this fundamental fact cannot be questioned, viz., that all wealth, all chattels, all rates and taxes, all that any man has for payment or consumption, is but a portion of the product of the labour of the industrial class of the community.

† See pp. 10–11 of "Final Report."

Of the so-called local public services in respect of which local authorities are now empowered to levy rates, it will be, of course, admitted, that some are rather national than local, and should be provided for from national resources and not at local charge, whilst others, like refuse-removal, gas, and water supply, etc., which any individual would have to secure on his own account if they were not supplied by local authorities, are not properly speaking rate-services, but are what the individual would otherwise have to pay for just as he pays for his food and clothing—quite irrespective of the classification of his property.

The services of a national character and those of a personal character being eliminated, there remain, as matter for local taxation properly so called, only services of a public character of local convenience or advantage. These all relate to the amenities, improvements and protection of the neighbourhood and enhance the eligibility and the value of the land of the district.

With reference to the terms "real" and "personal," it is manifest that they cannot be taken here in their strictly legal acceptation and as "terms of art," for there are forms of both real and personal property as understood at law which do not admit of being made the subjects of valuation or assessment. The terms movable and immovable probably come nearer to the sense intended; but, in truth, houses or machinery are not absolutely *immobilia*. The only thing that is *immobile* is the earth, and as there is a fundamental and natural difference between the ground and all other objects of ownership I shall consider the land apart from every other form of property.

THE PRESENT SYSTEM OF LOCAL TAXATION.

As to the system under which taxation is at present raised for local purposes, it is not necessary to go beyond the detailed and exhaustive statement in Chapters I. and II. of the main Report, or the admirably lucid exposition contained in Chapter I. of the Report by Sir Edward Hamilton and Sir George Murray.

From either the one or the other statement, it will be gathered that there are many separate authorities which, over different and often overlapping areas, impose, assess, collect, and disburse rates of divers denominations, for a great variety of purposes, on different forms of property, with different modes of valuation, and varying proportions of charge.

The different rates came into existence at different times, but for the most part they are collected after the manner of the Poor's Rate first imposed under the statute of Elizabeth.

This statute provided that the overseers of every parish appointed under it should "raise by taxation of every inhabitant, parson, vicar, and other, and of every occupier of lands, houses,

tithes impropriate or propriations of tithes, coal mines or saleable underwoods, in the said parish . . . according to the ability of the said parish"—for the relief of the poor.

It will be observed that all the properties or interests here enumerated are interests in land, houses being, on the principle *quicquid plantatur*, identified with land, and the "ability" of the parish was measured by the estimated value of houses and land. It certainly did not include personal property. It is true that afterwards, here and there, at irregular intervals and in an irregular and uncertain fashion, people were rated on interests not covered by the terms of the statute, and it is also true that the practice, irregular and illegal as it was, having been in some cases of long standing, was accepted as established by courts of law. But none the less, the great body of the people over the greater portion of the country successfully resisted the repeated attempts to rate pure personal property.

In 1836 the Parochial Assessments Act prescribed as the basis of valuation of such properties as were liable to be rated "an estimate of the net annual value of the several hereditaments rated thereunto, that is to say, of the rent at which the same might reasonably be expected to let from year to year, free of all usual tenant's rates and taxes, and tithe commutation rent-charge, if any, and deducting therefrom the probable average annual cost of the repairs, insurance, and other expenses, if any, necessary to maintain them in a state to command such rent."

Here again it will be seen at once that what was to be rated was not any interest of the tenant, but the annual value of the hereditament to the landlord.

In 1840 the Poor Rate Exemption Act enacted that "It shall not be lawful for the overseers of any parish, township, or village to tax any inhabitant thereof, *as such inhabitant*, in respect of his ability derived from the profits of stock-in-trade, or any other property, for or towards the relief of the poor."

It will be observed that this statute did not relieve of liability any inhabitant occupier *as such occupier*.

Since 1840 a number of decisions have been obtained in the Courts in accordance with which certain forms of machinery have been held liable to be taken into account in the valuation of the premises where they are found; but there is much doubt and difficulty as to the valuation of machinery and much divergence in practice in different places.

Thus it may be said, shortly, that the three forms of property now liable to be rated are lands and interests in land, buildings, and machinery.

IS THE PRESENT SYSTEM JUST?

The question, then, which is embodied in the terms of reference will relate to all forms of property, but to these three in

an especial manner; and the point for consideration is, whether, in the first place, the contributions from these several forms of property are equitable as between themselves.

In the absence of any suggested standard or criterion of equity, it may be reasonably assumed that the old equitable principle will, in this case, also hold good, viz., that he who takes the benefit should also take the burden; and in the light of this principle we must proceed to consider the nature of the different kinds of property in respect of which ratepayers are now burdened.

THERE ARE NO LANDOWNERS.

Now, between land and every other form of property there is an obvious, abiding, and essential difference. Every other form of property is transitory, wasting, and destructible, the temporary production of human industry, obtained by labour out of the material which the land supplies; but the land is not of human production: and as no man made it, so no man can destroy it; "no man, however feloniously inclined, can run away with an acre of it." Man's very body is built up of its substance; he is taken from it, and will return to it; while he lives, he must live and labour upon its surface. Equity and right reason would appear to suggest that the product of human industry should be the absolute property of the person or persons that created it, whether the creation be of food, or habitation, or instrument, or any other thing. But with the land it is different. Equity and right reason here suggest that, as access to the face of the globe is for mankind a necessary condition of existence, and yet land is incapable of creation by human industry, the same rule of absolute and exclusive ownership cannot apply. On this point the law of England is in accord with common sense; and according to that law land is not the subject of absolute property. "No man is, in law, the absolute owner of lands. He can only hold an estate in them," and that estate he holds under the Crown as representative of the community.

ENGLAND BELONGS TO THE ENGLISH; BUT—

It is then in accordance at once with reason, equity, and the law, to say that England belongs to the English; that the land of England, with all that is beneath its surface, and all that it produces by the unassisted force of nature, belongs to the people of England. Whatever may at any time be the authorised occupation of its surface, or of any part of it, however turned to account—well or ill, or not at all—however its resources, in whatever hands, may be developed or neglected, it is true to say collectively that the land of England belongs to the people of England.

The facts of the existing situation, however (it is not necessary to consider here how they may have been brought about) furnish an

extraordinary contrast with this natural and equitable view. The 32,000,000 of acres of country which stretch from Berwick-on-Tweed to Land's End, and which bear upon their bosom a population of 30,000,000 of human beings, are divided between a comparatively small number of freeholders, collectively forming only a tiny fraction of the inhabitants. These freeholders part with the occupation right of the different portions of the land only on terms, terms which, from generation to generation, and from decade to decade, are continuously advancing, whilst the overwhelming mass of the community, who are born, and live, and labour, and are buried in it, can exist on it only on condition of payment to the freeholders. They could live in any other country on the same or perhaps better terms.

It is plain that if a man does not own any land he must live upon the land of another; and he must, directly or indirectly, pay to him that owns it a premium or rent for permission to be there. This is the condition of the vast majority of the people of England; and every man, woman, and child in the community who has no share in the property in the land is—whether conscious of it or not—as much a rent-producing machine for the benefit of the landowners as the cattle that browse in the fields.

LOAFERS AND LABOURERS.

This fact, of itself, may of course be unobjectionable, for it is clear, firstly, that separate occupation of land, secured under the law, is indispensable for human industry and the development of the resources of the country; and, secondly, that a very large proportion of mankind have not either the inclination or the capacity to deal with it themselves. But the fact itself remains, viz., that the population of England is divided into two classes, one comparatively small, and the other immense, the one composed of the owners of the land, and the other composed of the non-owners of land. The first, *quâ* owners simply, "toil not, neither do they spin," but they receive from the majority of their fellow citizens a quittance amounting to more than a hundred of millions sterling in the year; while the second, or industrial class, have to labour not only for their bread, but also to pay for their foothold in the country. It may indeed be said that there are three classes, of which one not being composed of land owners, and not being industrial, are yet provided for by the industrial portion of the community. These are found in the workhouses in receipt of what is called indoor relief. However great may be the social or moral distinction between this class and the owners of interests in the land, from the point of view of political economy, the analogy is obvious.

POPULATION MAKES LAND VALUE.

The amount which the industrial portion of the community have in this way to pay out of the produce of their labour increases

with the increase of their own number. It is only the presence of man that gives value to land. Land at the North Pole has no value, because men are not there; it is of comparatively small value where people are few, as on Salisbury Plain; it is of very high value in the City of London, by reason of the concourse of people who desire to use it. Value is only the measure or token of the amount of human effort which any thing or service can command at any given time and place. It does not signify how that effort may be induced, or what may be the motive of it. The association of beautiful scenery, the proximity of a harbour or market, the accessibility of minerals, agricultural fertility, commercial convenience, or any other attraction may furnish a special inducement to compete for a particular spot, but the bare requirement of ground to stand or sleep on will, with an increasing population of non-owners of land, secure for the owners an increased tribute.

LAND VALUES AND IMPROVEMENT VALUES.

These considerations will be enough to show how essential a difference there is between the two chief kinds of property now liable to be rated, viz., land and buildings, and how reasonable and equitable it is that land or interests in land should be made the subject from which the services in the public interest should be supplied. A little further consideration will show in how different a position any other form of property stands. The increase in valuation, which has been so noticeable during the last fifty years, is due to the increased value of houses as well as to increase in the value of land. But a marked distinction must here be made. It is true that there has been a very much larger amount of money laid out in houses than was the case before; but this is a matter of expense, of sinking capital in the employment of labour and in paying for materials. A structure once erected remains a perishable commodity, maintained in condition only by the constant expenditure of more material and more labour, but on these conditions houses can be multiplied according to the multiplication of the people, as coats and books and other created commodities all can. But the land is constant in quantity and limited, and has to do for all, however many. Again, if each of two men resolves to build a house of a certain size and style, but one of them builds his house in an out-of-the-way part of Salisbury Plain, and the other of them builds his house in Cornhill, it is probable that the former, having to transport labour and material, will have to pay more for the erection of his Salisbury Plain structure than the other would spend in London, where conveniences are greater. But the Cornhill house would readily let at a rent many times as great as the other house would command. The difference in rent would represent the difference in site value, and not the difference in structural value. The distinction between site value and structural value

represents a difference which is a difference not of degree only, but of kind. The structural value is due to individual action; the site value depends on the action of the community. If it is suggested that an individual may do much to develop a site value, the obvious reply is that whatever he so does is included in his individual property as being of his own creation. If he should also be the freeholder this will in no way affect the matter. The improvement which he creates, he creates not in his capacity of mere landowner, but in his capacity as an industrial member of the community, and equity requires that he should have the full benefit of it. But the land which he owns is no more of his creation than it is of his neighbour's, though his ownership marks him off from the majority of his fellow citizens as one of the class endowed with the land of the country. If an owner of agricultural land builds a farmhouse with its necessary accessories, having, perhaps, reclaimed or drained the land, made or paid for the roads, erected the fences and constructed the ditches, etc., he is, in respect of his having created a farm as a going concern, as much an industrial member of society as the shipbuilder, the tailor, the doctor, or the ploughman, and as such is a benefactor of society. Society may well be satisfied with the service which he thus renders, and leave his buildings and improvements unburdened by taxation. But with regard to the land, on which his intelligence and resources have been exercised, he is debtor to the community at large, as being in privileged and protected ownership and occupation of a portion of that common patrimony which belongs to the community first, and to him only in a secondary and conditional manner.

LAND VALUES SHOULD BE RATED—

Again, if upon the banks of the Tyne landowners have for generations allowed to lie useless a low and swampy stretch, until some energetic, enterprising, and intelligent industrial, taking it at a rent, digs out a dock and starts the business of a shipbuilder, organising labour, creating employment, gathering a vast army of workers, and develops a town, and if with every increase of service which he thus renders to his fellows he is constrained to pay to the landowners, who have all the while done nothing, a constantly increasing rent, until land, originally worth a pound a year, is now worth a thousand, is it not in accordance with reason and justice that the thousand a year should be rated in the hands of the landlords rather than that the shipbuilder should be further charged? The structural value of the created property is maintained or increased only by constant expenditure by the individual on construction and repair of buildings and machinery. The whole value added by reason of the increase of men upon it attaches to the land and inures to the advantage of those between whom the interests in the land are divided.

Similarly it may be said of every other person who gives his fellow-men useful services, whether professional, clerical, medical, legal, artistic, or literary; by invention, production, or distribution, by land or sea, in public or domestic life, that he benefits the community by his industry, and should be allowed to enjoy the full fruits of it. Those services, whatever they are, if rendered for the personal and peculiar benefit of any individual, should be paid for by him; while the cost of services which are rendered to the community should be defrayed from the common patrimony, national services from the common fund of the nation, and local public services from the common fund of the locality.

—BUT NOT HOUSES OR MACHINERY.

The above considerations drive me to the conclusion that equity requires that houses and machinery should not be rated for local purposes; but that the cost necessarily incurred in connexion with those services should be defrayed at the expense of the land-interests of the locality. And this principle, being sound, will be applicable to all land, in town and country alike, to whatsoever purpose applied, and whether the particular industry carried on upon it be or be not remunerative in the hands of the industrial occupant. If this principle is adhered to, the cases of special properties such as railways, canals, docks, gasworks, and tramways, will present no difficulties such as beset the existing system. A railway station in a town, or the line which runs across the country, would be assessed according to the value of the land occupied, and no more; and so of all similar undertakings. An acre of agricultural land would be assessed according to its own value as land, quite irrespective of any buildings or other agricultural improvements; an acre of land in Salisbury Plain would pay its petty due; and the magnificent properties in the crowded cities would pay in proportion to the site value which the presence of the crowds has caused. The difficulty now raised with regard to what is called "unoccupied" land would at once disappear. It would be rated according to its value. But there is, in truth, no such thing as unoccupied land in England. If not let, land is in the hands of the owner, who retains it for his own purposes, just as a tenant might do.

RATE ALL LAND, RURAL OR URBAN, USED OR UNUSED.

The principle embodied in the foregoing remarks appears to be virtually, though not in terms, adopted in the Report on Urban Rating and Site Values which has been signed by a minority of the Commissioners. I should be glad to be allowed to associate myself with that singularly able document, at any rate so far as it goes in the application of the principle. I am, however, unable to

discover any logical distinction between different portions of land accordingly as they may happen to be in urban or rural areas, or as they may or may not at the moment be built on. The limitation to urban areas appears to involve an abandonment of principle, and to reduce the proposal to the level of a makeshift compromise, without logical justification. The same objection holds good against the schemes put forward by Mr. Fletcher Moulton and the London County Council. But assuming the frank and unqualified acceptance of the fundamental principle and its application to every acre of the country, urban or rural, and whether utilised or not, the remaining points to be considered are :—

(*a*) Whether the principle admits of practical application, that is, whether the valuation of land as distinguished from buildings or other improvements is in practice possible;

(*b*) Whether the charge of rates can be distributed equitably in proportions corresponding with the different shares in the interest in land; and

(*c*) The effect of existing contracts.

CAN LAND VALUES BE SEPARATELY ESTIMATED?

(*a*) With reference to the first point, many witnesses who appeared before the Commission, dwelt with emphasis on the alleged or suggested difficulty of estimating the value of land apart from buildings upon it; but no one of the expert witnesses would say that it was impossible, and none would admit that he could not himself do it if it was necessary. But, in fact, the matter is past the stage of mere argument, for not only is the thing being done every day for private purposes, but it is also done on public account in all three countries under the established practice. The entire system of valuation in Ireland under Acts of Parliament is based upon the separate valuation of land and of buildings. In England, land has to be separately valued in the country for the purposes of the Agricultural Rates Act, which prescribes the procedure for ascertaining, and the Returns which are to show, the division between the rateable value of agricultural land and that of the buildings and other hereditaments. Under numberless private Acts of Parliament the thing has been done for many years in connection with compensation to owners, lessees, and occupiers disturbed in their "quiet enjoyment" by promoters. In the case of the Tower Bridge Southern Approach Act, 1895, not only was the valuation differentiated, but the principle set forth above was recognised and applied when (under Section 36) the County Council of London was empowered to charge lands not taken over by them, but increased in value by their improvements, the charge to be apportioned between all the parties having any estate or interest, freehold or leasehold, in such lands. When the matter is considered quietly, apart from personal interest or the

prejudice of class or profession, it will be easily seen that there is no real difficulty about it, and that it would be just as practicable to make a map of the whole country, showing the valuation per acre or rood or plot of the surface of the land, as it is to make an Ordnance Survey Map, showing the elevation above the sea of every part of the country. In both there would be plains and slopes and peaks, though the summits of the physical contours would often be the depressions of the valuation contours, and *vice versa*.

CAN A LAND VALUE TAX BE EQUITABLY DISTRIBUTED?

(*b*) As regards the second point, as to the equitable distribution of charge among the different interests in land, it is necessary to keep clearly in mind that the fee-simple owners do not personally represent, or at least enjoy, the full property in the land. Many a freeholder can claim as his own but a very small—sometimes, indeed, a merely nominal—property; and equity requires that the burden should only be in proportion to the benefit. From the fee-simple of any parcel of land, there may be carved out many other estates and interests, freeholds as well as leaseholds, and interests in the nature of charges on the land, such as tithe rent-charge, settlement charges or certain forms of ground rents. These are all really portions of the interest in the land, and as it were, slices out of the cake. They should all contribute in their proportion to make up the assessment in the whole. Or again, a fee-simple holder may let his land for 999 years; his lessee may sub-let with some advance for 99; the first sub-lessee may sub-let again for 60, the second sub-lessee may sub-let for 21, and the tenant for the 21 years' term may sub-let for three years or less to the ultimate occupier. Any one or other of the members of this series may build or effect improvements. There may be mortgages and sub-mortgages. The business of the occupier may be remunerative or not. All these details are matters of no consequence and involve no difficulty. At each step between the occupier and the builder, so much of the rent as represents the value of the structure will be paid without deduction; but, if from the rent which the ultimate occupier pays to his immediate lessor, he is allowed after payment in respect of the house, to deduct the poundage on the valuation of the land—the land alone being rated—he will himself have to pay the poundage on any part of that valuation which may be in excess of the land rent. And this is as it should be; for to that extent, he is enjoying a portion of the value of the land. Further, each of the lessees in turn should be entitled to deduct from the sum which he pays to his lessor, poundage on so much of it as represents the valuation of the land—he himself bearing the burden in respect of the difference between what he pays to his lessor, and what he receives from his lessee, in

respect of the land—the value of the house being separately regarded until it comes to the turn of the builder; who, of course, deducts in respect of the whole sum paid by him. The superior holders then in turn pay each upon what he receives. In this way, the charge in respect of the land will be distributed equitably between those who share the benefit of it. The question of mortgages has been suggested as a difficulty. The difficulty, however, is only imaginary. It is true that, according to legal phraseology, a mortgagee has the legal estate; but in equity and practice the mortgagee is only a secured creditor and has no real ownership of the land until he forecloses. If he foreclosed or became mortgagee in possession, he would, of course, be liable to pay, or accountable for, the rates to the same extent as his mortgagor.*

AN ILLUSTRATION OF THE PROPOSED METHOD.

To show how very simple the matter is, we may take the case suggested under the heading "Urban Tenures" at the beginning of the Minority Report as a typical town holding.† In this case, A, the freeholder, having in 1830 let to B at £15 a year for 99 years, B built a house for £1,000 and sub-let to C for £75, the value of the house being (*ex hypothesi*) £60 a year. C or his representative, in 1870, sub-let to D at £100 a year; and D, in 1899, sub-let to E at £120.

Now, assuming the adoption of the principle above set forth, nothing could be more simple than this case. The house which represents £60 is not rated. E therefore will pay to D £120, of which £60 is for the house, and £60 in respect of the land. He will have paid the rates on this latter £60, and will deduct the amount from the £120, not having himself any share in the beneficial ownership of the land. D has to pay to C £100, of which £60 is for the house, and £40 for the land. By reason of E's deduction he has paid rates on £60, but he recoups himself to the extent of the rates on the £40 which he has to pay to C, and so bears the burden in respect of his share of the land interest, *i.e.*, £20 only. C in his turn has to pay to B £75, of which £60 is in respect of the house, and £15 in respect of the land. He deducts the rates on the £15, and so himself bears the burden to the extent of the difference between that £15 and the £40 received from D, *i.e.*, on £25. B in his turn deducts the rates on the £15 which he pays to A, the freeholder, for the land only; and this amount of the rates A pays. The rates, therefore, on the £60, the value of the land, will

* On the question of deductions, attention is invited to the "Memorandum on Taxation of Land Values and Assessment Reform," issued by the English Land Restoration League, a few weeks before Judge O'Connor's Report appeared.—EDITOR.

† P. 154, "Final Report."

be distributed between A, C, and D, in the proportions of £15, £25, and £20, which are their respective shares in the value of it. B, who built the house, but who, like E—the rent-paying occupant—has no share in the value of the land, will, like E, pay no rate in respect of it.

CAN THE LANDLORDS SHIFT THE TAX?

It will probably be objected that if the landowners are thus saddled with the rates, they will only add on a similar amount to the rent. The reply to this is threefold, viz., first that whatever is paid by anybody for rates, or rent, or anything else, must come from the product of the labour of the industrial portion of the community; secondly, that in any case the landlord gets what he can, and the tenant pays what he must; thirdly, that at present either the landlord does, as some contend, really bear the burden of the rates at least indirectly, or he does not. If he does, it will be no hardship upon him if it is made to be seen that he does so; and if he does not, then the tenant is not damnified if he has only to pay under the name of rent that which he now pays under the name of rates.

EXISTING CONTRACTS.

(*c.*) The last point which remains to be considered is that relating to existing contracts. As to this it is manifest that equity requires that all existing contracts should be absolutely respected. It may be that many of them will have to run not for years only, but for lives and longer. No matter, for although there would appear to be, according to the view taken in this Report, much that is inequitable in the present arrangements, and much that calls for change in the interests of the public, yet a disregard of contractual relations would be a more serious injury to the public than even the existing system of rating. If it is said that existing contracts will stand in the way of, or delay to a very great extent, the reform suggested, the answer is that the duty cast upon this Commission is not to secure or propose immediate alteration of the law, but rather to indicate the direction in which equity points—not to put forward proposals for immediate and universal application which would be revolutionary, but to show the direction in which reform should be attempted, and the mode in which existing injustice may be removed without shock to the body politic. But yet for the great majority of occupiers a very few years would have completely established a new system. The longest running contracts are also fewest in number, and the alteration once introduced (all contracts made contrary to it after a certain date being declared void) would work gradually and smoothly until it was in time completely effected.

LAND, AND LAND ONLY, SHOULD BE RATED.

In conclusion, I would venture to suggest that a change based on sound principle and carried out by gradual adjustment is not only not revolutionary, but is dictated by prudence. It is difficult to believe that with the diffusion of education, or at least of political information, the great mass of the people of England will long remain unconscious or heedless of the true economic position. If and when they realise it, they will probably be drawn to exercise that power, which the franchise places in their hands, to secure through the instrumentality of the Commons House of Parliament a readjustment of taxation, relief for industry in every form, and the imposition of the burden where also the benefit rests. But if this were done in consequence of popular agitation, and as the result of vehement party struggle, the hardship to individuals would be sudden and great, and the dislocation of interests detrimental to the community.

The conclusions, therefore, which I have humbly to submit are :—

1. That local public services properly so-called—and as distinguished from general public services on the one hand, and on the other from services rendered to the individual on his own premises—are alone the proper grounds for local taxation ;

2. That land (except land already dedicated to public use), and land only, should be rated for local public services ;

3. That all existing contracts should be respected ;

4. That the levy should be made from the occupier, with right of deduction, after the Income Tax method, secured to each lessee in respect of the superior interests in the land.

With the last paragraph of the Report of the Majority I desire very heartily to associate myself. It is the paragraph which contains a well-earned acknowledgment of the services of the Secretary, Assistant Secretary, and Clerical Staff, whose efficiency, assiduity, and unfailing urbanity have been of inestimable value throughout the long and laborious work of the Commission.

ALL WHICH I HUMBLY SUBMIT TO YOUR MAJESTY'S GRACIOUS CONSIDERATION.

ARTHUR O'CONNOR.

English Land Restoration League. No. 37. *6d. per 100.*

TAXATION OF LAND VALUES AND ASSESSMENT REFORM.

MEMORANDUM.

(1) Assessment on Land Values would promote—

(*a*) The application of all land to its most productive use ;

(*b*) The freeing of industry and the earnings of industry from fiscal burdens.

(2) To ensure the anticipated results an accurate assessment of all land will be necessary. This would be best attained by the assessment of all land on its capital or selling value.

(3) The anticipated results depend entirely on the assessment of land values to taxation and do not depend on the insertion or omission in any Bill of any deduction proposals.

(4) A tax assessed on land values would in effect come out of land values. If this economic principle be sound, the tax will settle on all "owners" who sell or let their land after the imposition of the tax, and lessees and tenants will not need any "statutory right of deduction" to protect them. If the principle be wrong, deduction arrangements will not mend matters, and, notwithstanding the formality of deduction, landlords in effect would shift the burden of the tax.

The only purpose for which the machinery of deduction is wanted, or can be of any use, is to bring home the tax to those freeholders and leaseholders who, before the imposition of the tax, have let to lessees with the condition that the lessees shall pay all rates and taxes during their leases. In these cases, the tendency of the tax to settle on all owners is partially arrested by the existing leases.

But this does not matter much, because—

(*a*) As regards leases and tenancies for short terms, the time will soon come for a fresh bargain to be made, when the economic tendency will operate to throw back the tax ;

(*b*) As regards leases for long periods, the leaseholders are often in enjoyment of the larger part of the land value, and the amount it would fall to them to deduct from the ground-rent they pay to the freeholder would not be large. Such leaseholders are, in fact, the principal owners of land values for the time being. Moreover, such leaseholders have expressly covenanted

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376 & 377 STRAND, LONDON, W.C.,
April 15th, 1901.

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